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UNCLAS RANGOON 001589

SIPDIS

SENSITIVE

STATE FOR EAP/BCLTV, EB
COMMERCE FOR ITA JEAN KELLY
TREASURY FOR OASIA JEFF NEIL
CINCPAC FOR FPA

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SUBJECT: BURMA'S ECONOMIC PROSPECTS: HOW LOW CAN THEY GO?

REF: A. RANGON 1468

1B. RANGOON 1248

11. (U) The full text of the Burma Country Commercial Guide is available on the internet or via email from wohlauerbv@state.gov. The following is a summary.

12. (U) The U.S. Government has an official policy to neither encourage nor discourage trade with Burma. Since May 1997, the U.S. Government has prohibited new investment by U.S. persons or entities. A number of U.S. companies exited the Burma market even prior to the imposition of these sanctions, however, due to the increasingly poor business climate, and mounting criticism in the United States from human rights groups, consumers, and some shareholders because of the Burmese government's serious human rights abuses and lack of progress toward democracy. No new sanctions were applied during FY 2001-02, although President Bush has continued the national emergency in place regarding the situation in Burma. The U.S. Congress has been deliberating a bill that would impose additional sanctions on the import of Burmese textiles.

13. (U) Burma's economy remains over 60 percent dependent on agriculture and extraction of natural resources. The manufacturing sector makes up only 8 percent of GDP. Burma's principal exports are natural gas, garments, beans and pulses, teak, and prawns and seafood. Burma is also one of the world's leading producers of opiates. U.S.-Burma trade is heavily skewed in favor of Burma. Burmese garment exports to the United States, which more than doubled in 2000 to \$415 million, fell slightly in 2001 and are headed for a sharper decline in 2002. U.S. exports to Burma, mostly machinery, totaled only \$11.3 million in 2001 and are also off in 2002.

14. (SBU) Most of the population is located in rural areas and survives at subsistence levels. Nearly half the children suffers from malnutrition, and many children never enter primary school. Drug use and HIV/AIDS are problems that are growing unchecked. UN agencies and several international NGOs are in Burma, but their effectiveness is limited by lack of government cooperation and the restrictions many countries have on the provision of humanitarian assistance to Burma. The country's infrastructure, including the telephone network, is in a terrible state of disrepair. Likewise, the educational infrastructure is in ruins as the government has kept universities closed for much of the past fifteen years. As a result, human resources have been severely damaged, with potentially serious long-term consequences.

15. (SBU) Economic information is very difficult to obtain, as the government does not publish reliable data -- or in some cases, any data. The economy suffers from serious economic distortions, including an official exchange rate that overvalues the Burmese kyat about 200 times. Expansionary monetary policies and state deficit spending have contributed to inflation, which rose to over 60 percent for FY 2001-02. Foreign exchange is likewise in very short supply, with an average of only two or two and one half months of import cover throughout FY 2001-02. The government has responded to this foreign exchange shortage by squeezing importers.

16. (SBU) As reported in reftels, we see no sign that the government is moving toward improving its investment climate or reforming its economic policies. In the year ahead, this ongoing mismanagement will only intensify the impact of forthcoming economic blows due to low levels of new foreign investment, and probable declines in key exports. As usual the people, some of whom are already relying on government rice rations for survival, will bear the brunt of this further economic disintegration.
Martinez